

Executive Summary

The Improper Payments Information Act of 2002 (Public Law 107-300, or IPIA) requires all Federal agencies to identify programs and activities that may be susceptible to erroneous payments and to annually estimate and report to Congress the value of erroneous payments.¹ This assessment examines the accuracy of the classification of Family Day Care Homes (FDCHs) participating in the U.S. Department of Agriculture's (USDA) Child and Adult Care Food Program (CACFP). The assessment provides estimates for Program Year (PY) 2011 of the number of FDCHs misclassified by sponsoring agencies into the wrong tier, and the resulting erroneous payments for meals and snacks reimbursed at the wrong rate.² The assessment does not attempt to measure other types of erroneous payments in the CACFP, such as meal claiming errors by FDCHs.

CACFP Background

Meals served in CACFP FDCHs are reimbursed according to a two-tiered rate structure: Tier I and Tier II. Sponsoring agencies are responsible for determining the appropriate tier for each of their participating FDCHs. FDCHs are eligible for reimbursement at the higher Tier I rates for all eligible meals if they satisfy either of two conditions: geographic eligibility or provider income eligibility.

- **Geographic Eligibility:** the FDCH is located in a low-income area. Geographic eligibility is determined by a home being located: a) in the attendance area of a school in which at least 50 percent of the children enrolled are certified eligible for free or reduced-price (F/RP) meals; or b) in a census block group (CBG) in which at least 50 percent of the children live in households with incomes at or below 185 percent of the Federal poverty guidelines (FPG).
- **Provider Income Eligibility:** the family day care provider certifies by application that she or he has a household income at or below 185% of the FPG or is categorically eligible because of being certified for the Supplemental Nutrition Assistance Program (SNAP) or another means-tested program with income limits of no more than 185% of the FPG.

¹ OMB guidance defines significant erroneous payments as annual erroneous payments in the program exceeding both 2.5 % of program payments and \$10 million (OMB Circular A-123, Appendix C, August 10, 2006). The terms "improper" and "erroneous" have the same meaning within the OMB guidance. We use the term "erroneous" in this report.

² Six previous reports provide estimates of erroneous CACFP payments due to errors in sponsor tiering determinations for Program Years 2005-2010. Program Year 2011 covers the twelve months from August 2010 through July 2011.

FDCHs that meet geographic or income eligibility criteria are classified as "Tier I," and those that do not are classified as "Tier II." In Tier II FDCHs, meals served to children who qualify as low-income are reimbursed at the Tier I rates; all other meals are reimbursed at the lower Tier II rates.³

This eligibility definition was modified during the period covered by this evaluation. The Healthy Hunger Free Kids Act of 2010 (HHFK Act) broadened geographic eligibility for Tier I status to include FDCHs located in the attendance area of any public school (not just elementary school) in which at least 50 percent of the children are approved for free and reduced price meals. The HHFK Act was made retroactive to October 1, 2010, so it covers the last 10 months of the 12 month evaluation period. The previous definition is referred to in this report as the "old rule," while the definition introduced by the HHFK Act is referred to as the "new rule."

During FY 2010, there were 131,865 family day care homes participating in the CACFP in the contiguous United States (the sampling universe for this Assessment), including 106,556 Tier I FDCHs and 25,309 Tier II FDCHs (Table ES-1). The CACFP provided reimbursements to FDCHs for 581 million meals, at a total cost of \$753.8 million.

Table ES-1. Contiguous United States FDCH totals for FY2011

	Tier I	Tier II
Number of FDCHs	106,556	25,309
Number of meals	475 million	106 million
Reimbursements	\$670.4 million	\$83.4 million

Source: FNS National Data Bank totals for contiguous US (sample universe for the assessment).

Assessment Methods and Sample Results

For this Assessment, we attempted to verify sponsors' determinations of tiering status for a sample of 660 FDCHs, selected from the lists of 55 sponsors located in 14 States. All but one of the FDCHs in the final sample were currently approved for the CACFP as of August 2011 and reimbursed for meals at some time between August 2010 and July 2011. We first attempted to independently verify Tier I eligibility for all sampled FDCHs using matches with school and Census data. Tier I FDCHs were verified without any additional data collection if all three of the nearest elementary schools (by straight-line distance) or the two closest schools for each secondary grade

³ Although the CACFP regulations differentiate between meals (breakfasts, lunches, and suppers) and snacks, we use the term "meals" alone in this report for simplicity.

were area-eligible (i.e., at least 50 percent of students were approved for F/RP meals), or if the FDCH was located in a CBG that was area-eligible. If some but not all of the nearest schools were area-eligible we contacted school districts or used their websites to determine the correct school attendance area for the FDCH, and then determined whether this school was area-eligible. Using these methods, we verified sponsors' determinations for 500 Tier I FDCHs, 89.9 percent of the Tier I sample. (Using the old eligibility rule in effect before October 1, 2010 we verified 486 Tier I FDCHs, 87.7 percent of the Tier I sample.)

For Tier I FDCHs not verified through data matching we reviewed sponsors' documentation of tiering determinations. These documents confirmed the sponsors' determinations for an additional 51 Tier I FDCHs (56 using the old rule). The assessment was completed for 100 percent of the sample. We identified 5 misclassified Tier I FDCHs and 8 misclassified Tier II FDCHs (12 and 4 under the old rule).

National Estimates of Misclassification Errors and Costs

FDCHs. Using sample data and sampling weights, we estimated that, nationwide, 0.91 percent of Tier I FDCHs and 7.18 percent of Tier II FDCHs were misclassified in PY2011. In total, there were an estimated 2,782 misclassified FDCHs, 2.11 percent of all FDCHs. The percentage estimates and the associated 90 percent confidence intervals are shown in Table ES-2.

Table ES-2. Estimated misclassification rates by tiering status in 2011

Tier as Determined by Sponsor	Percentage of FDCHs Misclassified (90% Confidence Interval)	Number of FDCHs Misclassified (90% Confidence Interval)
Tier I – old rule	2.17% (1.29% to 3.62%)	2,300 (1,367, 3,846)
Tier I – new rule	0.91% (0.48% to 1.71%)	966 (510, 1,823)
Tier II – old rule	3.88% (1.72% to 8.51%)	997 (442, 2,186)
Tier II – new rule	7.18% (4.45% to 11.38%)	1,816 (1,126, 2,879)
All – old rule	2.50% (1.58% to 3.94%)	3,296 (2,081, 5,192)
All – new rule	2.11% (1.39% to 3.19%)	2,782 (1,834, 4,204)

Meals. For misclassified FDCHs, the number of meals reimbursed in error is the difference between the number actually reimbursed at Tier I rates and the number that would have been reimbursed at Tier I rates if they had been correctly classified. Meals reimbursed at Tier I rates that should have been reimbursed at Tier II rates result in overpayments; meals reimbursed at Tier II rates that should have been reimbursed at Tier I rates result in underpayments. The erroneous payment for a meal reimbursed at the wrong rate is the difference between the Tier I and Tier II rates, which ranged from \$0.50 for snacks to \$0.92 for lunches and suppers (under rates effective from July 1, 2010 through June 30, 2011).

We estimate that, as a result of misclassifications, 2.80 percent of meals served at FDCHs classified as Tier I were reimbursed at the higher Tier I rate when they should have been at the lower Tier II rate, and 3.07 percent of meals served by FDCHs classified as Tier II were reimbursed at the Tier II rate instead of the higher Tier I rate for which they were eligible. Overall, 2.85 percent of FDCH meals – a total of 16.53 million meals this year – were reimbursed at the incorrect rate. (See Table ES-3 for estimated percentages and their 90 percent confidence intervals.) The estimates for Tier I FDCHs are computed using State average percentages of meals in Tier II FDCHs reimbursed at Tier I rates, since we do not know the actual number of Tier I-eligible children in FDCHs misclassified as Tier I.

Table ES-3. National estimates of meals claimed in error, FY2011

Tier as Determined by Sponsor	Percentage of Meals Claimed in Error Due to Misclassification of FDCHs (90% CI)	Millions of Meals Claimed in Error Due to Misclassification of FDCHs (90% CI)
Tier I – old rule	3.51% (1.79% to 5.24%)	16.69 (8.51 to 24.87)
Tier I – new rule	2.80% (1.27% to 4.32%)	13.29 (6.03 to 20.54)
Tier II – old rule	1.25% (0.00% to 3.11%)	1.32 (0 to 3.29)
Tier II – new rule	3.07% (0.26% to 5.87%)	3.25 (0.28 to 6.22)
All – old rule	3.10% (1.57% to 4.62%)	18.01 (9.59 to 26.43)
All – new rule	2.85% (1.41% to 4.28%)	16.53 (8.70 to 24.37)

Table ES-4 shows that the estimated costs of misclassification errors were overpayments of 1.41 percent to Tier I FDCHs and underpayments of 3.00 percent to Tier II FDCHs. Overall the

erroneous payment rate was 1.58 percent, with a 90 percent confidence interval from 0.77 percent to 2.38 percent. Breaking down the overall erroneous payment rate, overpayments represented 1.26 percent (\$9.48 million out of \$753.8 million from Table ES-1) of total payments, and underpayments represented 0.33 percent of total payments.

The total estimated cost of misclassification errors (overpayments plus underpayments) was \$12.0 million, with a 90 percent confidence interval from \$6.25 to \$17.71 million. The estimated total includes \$9.5 million in overpayments to Tier I FDCHs and \$2.5 million in underpayments to Tier II FDCHs, as shown in the table (with confidence intervals).

Table ES-4. National estimates of the percentage of costs and total costs of misclassifications, FY2011

Tier as Determined by Sponsor	Percentage of Reimbursements Paid in Error Due to Misclassification of FDCHs (90% CI)	Millions of \$ in Reimbursements Paid in Error Due to Misclassification of FDCHs (90% CI)
Tier I – old rule	1.78% (0.90% to 2.67%)	\$11.96 (\$6.02 to \$17.90)
Tier I – new rule	1.41% (0.63% to 2.19%)	\$9.48 (\$4.24 to \$14.71)
Tier II – old rule	1.21% (0.00% to 3.03%)	\$1.01 (\$0 to \$2.53)
Tier II – new rule	3.00% (0.21% to 5.78%)	\$2.50 (\$0.18 to \$4.82)
All – old rule	1.72% (0.86% to 2.58%)	\$12.97 (\$6.84 to \$19.10)
All – new rule	1.58% (0.77% to 2.38%)	\$11.98 (\$6.25 to \$17.71)

The estimates of misclassification rates and the cost of misclassification for 2011 are slightly larger than estimates for 2010, but they are consistent with those observed over the last six years (see Figures ES-1 and ES-2). The fluctuations in estimates of misclassification errors for the seven years of assessments are consistent with what we would expect in the presence of sampling error.

The major change from previous assessments is the new rule for Tier I eligibility introduced by the HHFK Act of 2010. This Act expanded the school-based eligibility to include any secondary grade (i.e., middle school or high school). It also required sponsors to redetermine eligibility for all Tier II FDCHs. As a result, the Tier II misclassification rate for 2011 was significantly higher than in 2010.

In 2010 it was 1.39 percent but in 2011 it had risen to 7.18 percent. As noted in last year’s Executive Summary “while only one Tier II FDCH was misclassified, our [Abt’s] independent verification found five FDCHs (4.1 percent of the Tier II sample) that could have been classified as Tier I in 2010. ‘These FDCHs were not counted among the misclassification errors because there was no Tier I application or determination in the reference period.’”

Figure ES-1. Estimated misclassification as a percentage of reimbursements: 2005 through 2011

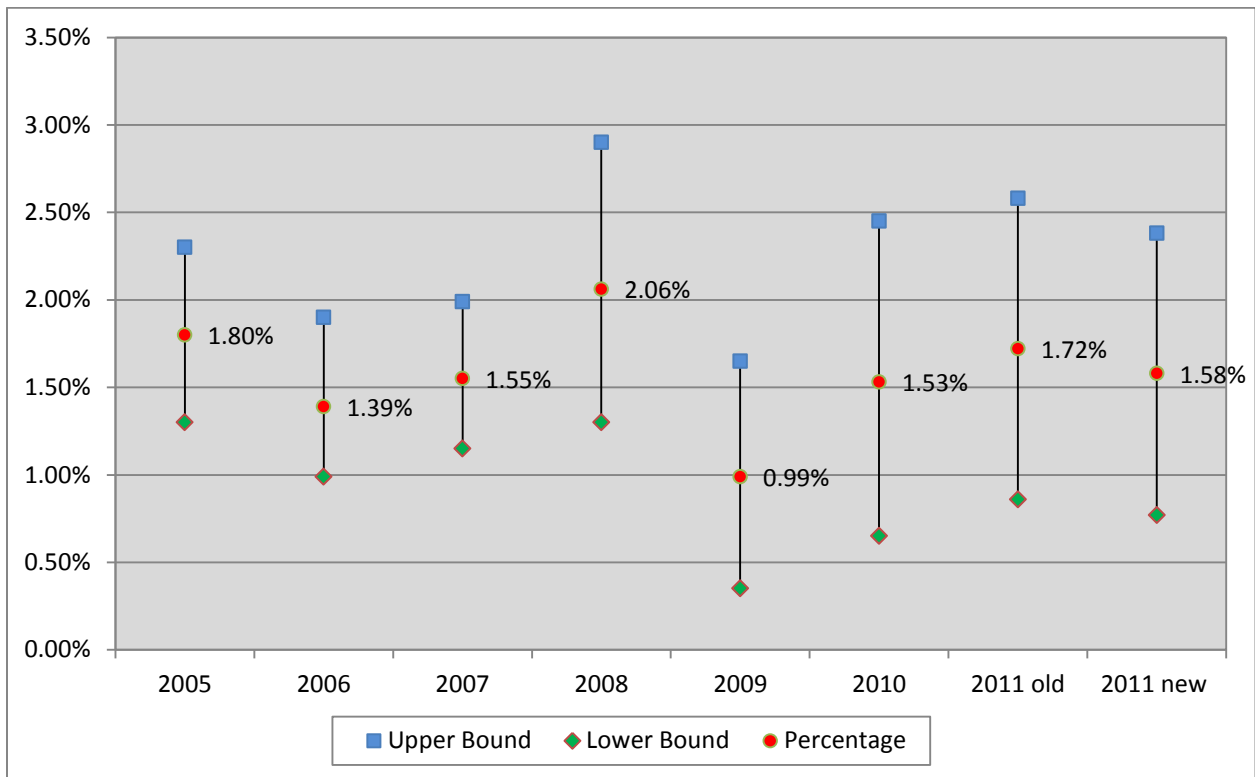
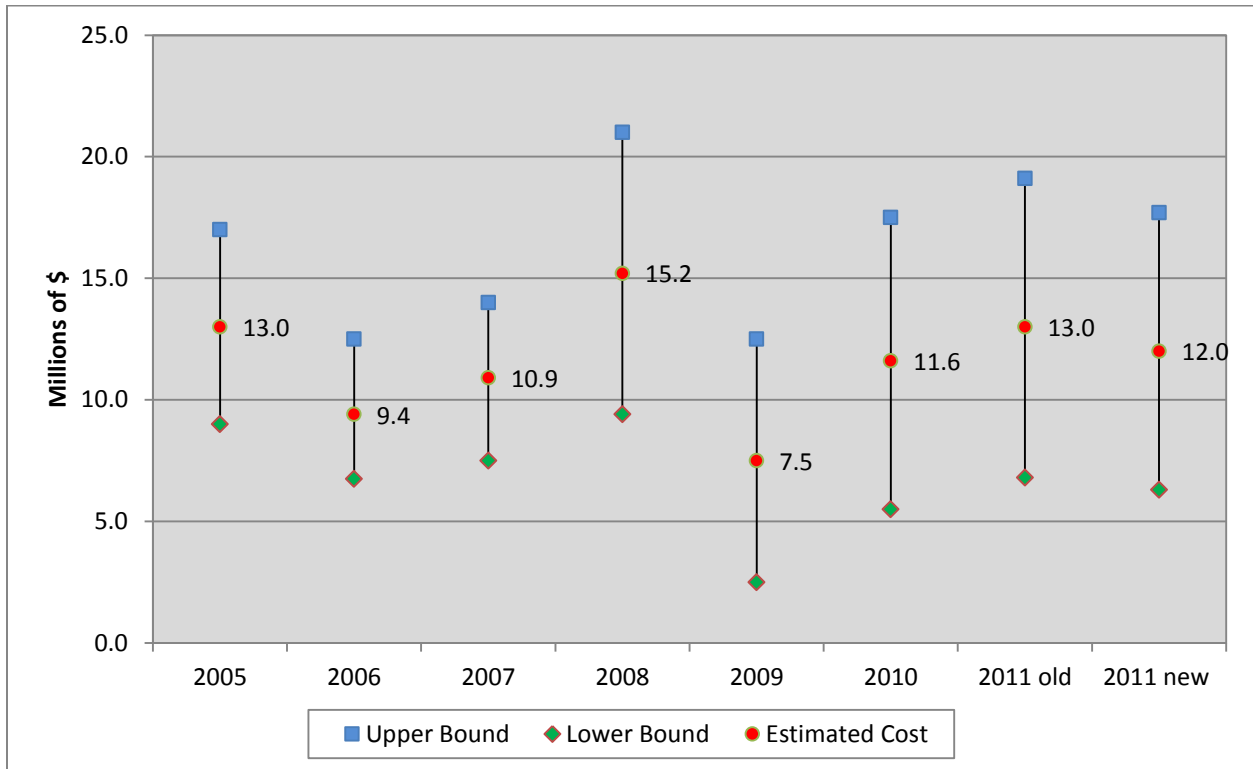


Figure ES-2. Estimated cost of misclassification 2005 through 2011 (\$million)



Implications of the Assessment Process and Results

This Assessment met FNS' requirements to provide estimates of misclassification rates for FDCHs in the CACFP and the resulting erroneous payments, within the standards of precision set by OMB. The 2011 Assessment produced results comparable to those of previous assessments.

The assessment confirms that the vast majority (98 percent) of tiering determinations were accurate. At the same time, the document review indicates that determinations based on income are more error-prone than other determinations, particularly income determinations without tax return documents.

The change in rule expanding the definition of eligible for Tier I to include secondary school eligibility resulted in a small change in overall eligibility. The new rule results included in this report will be the basis for future comparisons. The more important impact of the HHFK Act is that during FY2011 sponsors were required to redetermine tiering for all Tier II FDCHs. This eliminated the problem noticed in earlier assessments that some Tier II FDCHs were eligible for Tier I but not

considered errors since the sponsors weren't required to re-determine eligibility. This rule change had a number of implications for the current and future assessments:

- Increased the number of Tier I FDCHs;
- Reduced the overpayment rate (because some previously incorrect Tier Is are now correct);
- Increased the underpayment rate (because all Tier II were re-determined but their eligibility wasn't always caught);
- Decreased the net overpayment by 36 percent; and,
- Increased the number of correctly tiered FDCHs with some meals reimbursed at the incorrect amount (a higher percentage had their most recent tiering date during the year of the assessment because all Tier II had to be re-determined).

Finally, in considering the implications of this assessment, it is important to acknowledge that tiering determinations are only one of several potential causes of improper payments in the CACFP. If tiering determinations were the sole source of improper payments, the CACFP would fall below the IPIA's reporting threshold, which mandates reports for programs with improper payments that exceed both \$10 million per year and 2.5 percent of total payments. The CACFP has several other potential sources of erroneous payments to FDCHs, including errors in determining eligibility of children in Tier II FDCHs for Tier I meals, meal claiming, errors by providers, and meal claims processing errors by sponsors. Furthermore, this assessment does not address erroneous payments to child care centers or adult day care programs. Thus, the estimates of this assessment understate the full extent of improper payments in the CACFP.